

NSC REVIEW
COMPLETED,
10/31/03

DRAFT MATERIAL FOR PROGRESS REPORT ON
NSC 5402, U.S. POLICY TOWARD IRAN

PARAGRAPH 15 A and B, NSC 5402

There have been certain significant developments in the direction of settlement of the Anglo-Iranian oil dispute since approval of NSC 5402.

1. A consortium of oil companies (40% AIOC; 40% American companies; 20% Shell and Compagnie Francaise des Petroles) is being discussed in London. This consortium when organized will open negotiations with the Iranian Government to return Iranian oil to world markets and thus provide Iran with substantial revenues from its oil resources.

2. Normal diplomatic relations have been restored between Iran and U.K.

3. The Iranian Parliament elected under Mossadeq has been disbanded, while controlled elections for the Senate and Majles have been conducted with remarkable success for the Government's slate of candidates and with little disorder in the country.

4. An eminent American oil expert, Mr. Torkild Rieber, has been hired by the Iranian Government as a special adviser for oil matters.

5. There is some evidence that top Iranian officials have acquired greater understanding of the complexities and realities of the international oil business during the past months of "education" by Mr. Herbert Hoover, Jr., U.S. Ambassador Henderson and an extensive propaganda campaign by CIA and NSIA.

6. Although there are still great political and psychological factors in Iran which could disrupt any oil agreement which would appear reasonable to international oil companies, there now exists the most favorable atmosphere for such a settlement for three years past or for the foreseeable future. (NOTE: Last minute developments will be added to this section, bringing it up to date.)

PARAGRAPH 15 c, NSC 5402

As to the question of considering unilateral action with Iran if there is no oil settlement by April 1, 1954, it would seem that such action, even if practicable, would be out of order while the current negotiations are in progress and should only be considered when it appears that the negotiations have failed.

RECOMMENDATION RE PARAGRAPH 15, NSC 5402

It is recommended that the date of April 1, 1954, be changed to June 1, 1954, in Paragraph 15 e of NSC 5402 (Courses of Action). This paragraph would then read, "If such a settlement has not been reached by June 1, 1954, review of U.S. policy toward the problem ...including giving consideration to taking independent action within Iran, in order to bring about a resumption of revenues from its oil resources..."

Reference is made to the "Recommendation for Action by 1941 of March 18, 1954, submitted to the OMB by the OCS Working Group for NSC 5402. A copy of this is hereto attached.

PARAGRAPH 16, NSC 5402

Since approval of NSC 5402, Iran has been granted 6 million dollars additional emergency economic aid. This brings to a total of 51 million dollars the emergency aid granted the Zahedi Government by the U.S.

As to the desirability of providing economic aid in the form of loans, it was not possible, in view of the urgency of Iran's need in March to await the election of a Majlis to consider accepting a foreign loan. It is the law of Iran that foreign loans must receive Majlis approval. The Majlis which had been convened under Mossadeq had been disbanded and the new Majlis had not been convened when the need for additional aid was most pressing. In addition, it is probable that it would be politically unwise to propose consideration of a foreign loan as the first business of the new Majlis.

Although it may not be necessary to extend further emergency economic aid to enable the Zahedi Government to meet its budgetary deficit prior to June 30, 1954, there is no certainty that this will be the case. Latest advice indicates that available aid will be barely sufficient until June 15. In any event short of a resumption of oil revenues, it is quite likely that additional aid will have to be made available in May or June in order that the Zahedi Government will be in a position to meet its budgetary requirements in the period immediately following June 30. For planning purposes, it is probably necessary to assume a requirement for emergency economic aid of approximately \$1 million per month. Furthermore, it must be recognized that this emergency economic aid accomplishes its purpose only as it can be translated into the acquisition of local currency by the Iranian Government. Under the procedures under which the aid is made available are extremely important, and unless the special procedures employed in connection with the recent \$6 million grant are applied to future aid, dollar aid will have to be made available several months in advance of the date when the Government of Iran is expected to require the rials.

RECOMMENDATION PARAGRAPH 16, NSC 5402

It is recommended that no change be made.

PARAGRAPH 17, NSC 5402

NOTE: FIA is drafting this section. Mention will also be made to propaganda support contributed by USIA.

RECOMMENDATION PARAGRAPH 17, NSC 5402

It is recommended that no change be made.

PARAGRAPH 18, NSC 5402

Full consultation has been maintained with the U.K. on all significant U.S. moves toward settlement of the oil dispute and provision of economic and technical aid to Iran. Although there are certain outstanding problems still under discussion between the two governments and between American and British oil companies, U.S.-U.K. relations have not been unduly impaired nor has the U.K. been permitted to veto any action which the U.S. has considered essential to the achievement of the objectives set forth in NSC 5402.

Although there are still great obstacles to overcome, efforts to have the British and Iran agree to a practical and equitable solution of the oil problem at the earliest possible moment have been marked by success on the following major points:

- 1) AIOC invitation to five American oil companies, Royal Dutch Shell and Compagnie Francaise des Petroles to form a consortium to handle Iranian oil.
- 2) AIOC acceptance of not more than a 40% share in the consortium.
- 3) British acceptance of the principle that the total British share (including British interest in the Shell Company's share) may not be a controlling percentage of the consortium.

On several occasions since approval of NSC 5402, the U.S. Government has received assurances of full U.S. support to the Zehedi Government. There is a clique of Iranian politicians who have local reputations of being British agents. They have not concealed their antagonism to Zehedi and their desire to replace him with one of their number. It is, of course, always possible that the U.K. Government is inspiring these intrigues, but it seems more likely, in the considered judgment of U.S. Embassy and State Department observers, that those Iranian politicians are merely acting on their own initiative in pursuance of their personal

ambitions. In either case, one thing is certain, there is insufficient evidence of deliberate U.S. Government instigation of anti-Zahedi intrigues upon which to base any protest.

On January 23, 1954, the Attorney General expressed the opinion that participation of American oil companies in the specified proposed consortium to contract with the Government of Iran within the area of the former AIOC concession for production, refining and acquisition of petroleum and petroleum products, would not in itself constitute a violation of the anti-trust laws. This made it unnecessary for the President to use his authority to approve voluntary agreements and programs under Section 708 (a) and (b) of the Defense Production Act of 1950, as amended. (NOTE: The above section will be brought up to date as necessary prior to being submitted to the OCB.)

RECOMMENDATIONS - PARAGRAPH 18, NSC 5402

It is recommended no change be made.

PARAGRAPHS 19, 20, NSC 5402

NOTE: The Department of Defense is drafting this section.

RECOMMENDATION, PARAGRAPHS 19, 20, NSC 5402

It is recommended that no change be made.

PARAGRAPH 21, NSC 5402

Ambassador Henderson has been instructed to inform the Shah that the U.S. and U.K. are in agreement that Iran's armed forces should have capabilities beyond those of maintaining internal security. Such forces should be developed gradually and with due care not to overburden Iran's economy.

As to Iran's joining in regional defense arrangements, the fact was made clear in conversations with Vice President Nixon, Ambassador Henderson and U.S. military advisers that it is premature for Iran to enter such arrangements. However, he has expressed a hope that, as Iran's armed forces develop a capability to make a significant contribution to regional defense, it will be possible to move in the direction of military cooperation with Iran's neighbors. The U.S., U.K. and Turkish Governments agree that this is not an appropriate time to press for immediate and, of necessity, public Iranian participation in regional defense as well as by individual country defense considerations.

Through the provision of grant military aid and training, the U.S. Government is assisting Iran in developing military capability which

would enable it effectively to enter into military cooperation with its neighbors and to enter into any regional defense arrangements which may be developed for the Middle East.

RECOMMENDATION, PARAGRAPH 21, NSC 5402

It is recommended no change be made.

PARAGRAPH 22, NSC 5402

Ambassador Henderson and his Embassy Staff, constantly in contact with high levels of the Iranian Government, bear in mind the desirability of strengthening in Iran the ability and desire of the Iranian people to resist communist pressure. The effect of their influence cannot be measured, but it is noteworthy that the Shah, Prime Minister Zahedi and most leading members of the Government are fundamentally anti-communist.

The Shah and Zahedi both realize the need to demonstrate to the Iranian public the benefits of a pro-western attitude and the importance of directing nationalist feelings into constructive channels. Major obstacles to a successful program in this direction are:

- 1) Failure so far to improve the extremely low levels of living of the great bulk of the population.
- 2) The historical concentration of the control of political and economic activities in a comparatively small number of leading families who have consistently, although disunitedly, resisted the efforts of politically ambitious urban middle class elements to broaden participation in the control of these activities.
- 3) The political inexperience and lack of discipline of the Majlis the members of which for the most part represent the ruling aristocracy, and tend to support individuals rather than programs or principles.
- 4) The Shah's deep suspicions of any strong Prime Minister and his resistance to Majlis attempts to control the Executive Branch of the Government.

The FOA Program has contributed to implementation of this policy by giving constructive employment to young educated Iranians who might otherwise have been frustrated, unemployed and prey for agitators.

RECOMMENDATIONS, PARAGRAPH 24, NSC 5402

It is recommended that no change be made.

PARAGRAPH 25, NSC 5402

The Joint Chiefs of Staff (in their 1714/55) approved CINCENL's OPS Plan 207-54. This plan takes into account possible military action in Iran in support of a non-Communist Government in the event either an attempted or an actual Communist seizure of power in one or more of the provinces of Iran or Tehran. This plan provides for necessary liaison with the United Kingdom prior to its execution.

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PARAGRAPH 25 e, NSC 5402

1. While plans for U.N. action in the contingency foreseen in Paragraph 25 are being studied in the Department of State, it has been considered undesirable at this time to discuss such plans with other friendly Delegations at the U.N. or with the Secretary General of U.N.
2. As a situation develops in which it is considered desirable to consult with other nations on plans for possible U.N. action, we would probably first raise the matter on a confidential basis with the U.N. Government. Since both Turkey and Pakistan would undoubtedly be concerned at signs of increasing Communist influence in Iran, it might also be desirable, as the situation deteriorates, to consult with Turkey and Pakistan in regard to concerted plans for U.N. action in the contingency foreseen in Paragraph 25.
3. As affairs grow progressively serious in Iran, and there is evidence of increasing Communist subversion, it might be desirable to advise the Iranian Government to prepare and submit a short "Status Report" to the Security Council, for the information of all U.N. members, under the heading of the "Iranian Question" which has remained since 1946 on the list of matters with which the Security Council is seized. Such a report, while it need not call for debate or action, could serve as a

warning signal to the members that the situation might soon require some U.N. action.

4. A more positive step would be to encourage the Iranian Government to request the dispatch of observers to Iran's northern frontier areas by the U.N. Peace Observation Commission. The POC, consisting of the representatives of fourteen U.N. countries at New York, was established as a part of the United Nations Peace machinery created by the General Assembly in its resolution of November 3, 1950. It is empowered to "observe and report on the situation in any area where there exists international tension, the continuance of which is likely to endanger the maintenance of international peace and security." The POC can be "utilized", at the request or with the consent of the state or states in whose territory observation would be conducted, either by the Security Council, by the General Assembly, or by the Interim Committee (Little Assembly) when the Assembly itself is not in session. POC observers would report to the Peace Observation Commission, or a Subcommittee thereof, and any worsening of the situation thereafter could be brought quickly to the attention of either the U.N. Security Council or the General Assembly in the form of such observer reports. It could, of course, be essential to ensure that U.N. observers utilized for possible duty in Iran were of a nationality acceptable to the Iranian Government. (It is worthy of note that the initial U.N. Security Council action in the face of the Communist invasion of the Republic of Korea in 1950 was taken on the basis of on-the-spot U.N. observer reports and not simply of charges made by the Republic of Korea or by the United States.)

5. A more far-reaching type of action, should the Iranian situation further deteriorate, would be to bring before the U.N. charges that the political independence and territorial integrity of Iran were being threatened, that the authority of the legitimate Iranian Government was being undermined in some parts of the country by an externally-supported movement, or that the legitimate Iranian Government had been overthrown by illegal means. Such a situation could be presented to the U.N. Security Council or the General Assembly (and the latter might be called into special session if necessary) as a direct and immediate threat both to the independence of a U.N. Member nation and to the peace and security of the Middle East.

The exact nature of such charges would, of course, depend upon the situation existing at the time. This would also be true of the nature of the remedial or counter action to be sought. Among the measures which might be considered are: (a) a U.N. call to the offending party to "cease and desist" in its illegal efforts to undermine the Government of Iran; (b) a U.N. "condemnation" of the offending party as guilty of violating the Charter or of an act of aggression; (c) a possible call to U.N. Members to render such assistance and support to the legitimate Government of Iran as they might be in a position to provide. (Such

a resolution would provide the stamp of U.N. approval for various types of direct aid which the United States and other like-minded nations might wish to give to Iran under such conditions); or (d) a call for the application under U.N. auspices of "collective measures", and its nature and scope regarded as most useful under the circumstances.

25X1 Although State ☐ and Defense are prepared to enter discussions with appropriate U.N. representatives concerning each of the above plans, such discussions have not yet been commenced.

RECOMMENDATION PARAGRAPH 25, NSC 5402

It is recommended no change be made.

PARAGRAPH 26, NSC 5402

The Joint Chiefs of Staff have designated and provided guidance for a representative to participate in political-military-economic discussions to establish a recommended United States position in preparation for talks with the British Government under the provisions of this paragraph.

In view of the highly delicate negotiations regarding an Iranian oil settlement being carried on at the present time, approaches to the British regarding liaison are being delayed.

RECOMMENDATIONS PARAGRAPH 26, NSC 5402

It is recommended no change be made.

PARAGRAPH 27, NSC 5402

RECOMMENDATION, PARAGRAPH 27, NSC 5402

It is recommended no change be made.

USIA has expanded its program to include the assignment of officers to the three consulates in Iran and step up its program in the field of press relations, distribution of news, library services, etc. It is extremely difficult to measure the full effect of this program, but it is clear that, through USIA efforts, a significant amount of material which is considered useful to U.S. purposes in Iran is distributed and read by the local people.

RECOMMENDATION PARAGRAPH 22, NSC 5402

It is recommended that no change be made.

PARAGRAPH 23, NSC 5402

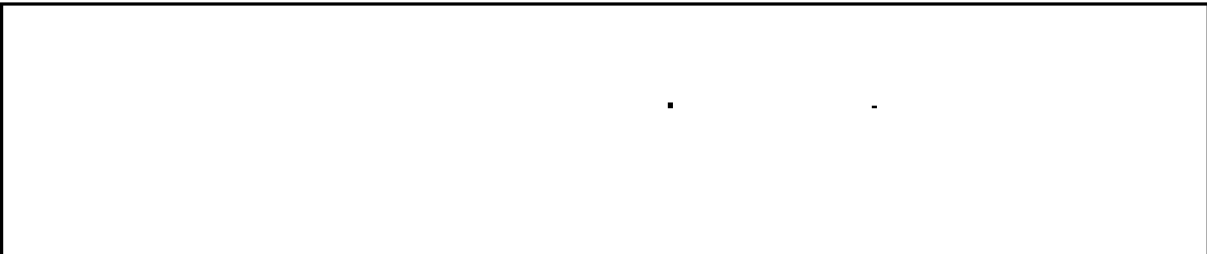
The U.S. Embassy at Tehran has been requested to report upon Iranian Government planning to carry out or propose for new legislation any financial, judicial, administrative and other reforms. Since the Zenedi Government has been primarily concerned with the establishment and maintenance of security throughout Iran and with preparations for negotiating a settlement of the Anglo-Iranian oil dispute, it has been unable to give much attention to reforms. The Embassy has been instructed to encourage, whenever possible, the preparation of an Iranian Government reform program to present to the Majlis when it convenes. There are available from the reports of previous advisory missions to Iran and from tax, land reform and similar experts now in the employ of AIA, plans and programs which could be used by the Iranian Government as a basis for preparation of necessary legislation.

The Shah has not designated a successor. Probably the main reason can be found in his suspicion of any such successor. Ambassador Henderson has been instructed to press upon the Shah, whenever an appropriate occasion appears, the desirability of designating a successor. To date, however, there is no indication that the Shah will do so. (NOTE: FIA is drafting an addition to this section.

RECOMMENDATION PARAGRAPH 23, NSC 5402

It is recommended that no change be made.

PARAGRAPH 24, NSC 5402



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